



*Leading environmental
protection in West Michigan
by inspiring action!*

May 7, 2015

RE: HB 4297; Mandate Floors and Monetize Costs

Dear Chairman Nesbitt and Honorable Members of the House Energy Policy Committee,

West Michigan Environmental Action Council (WMEAC) strongly supports mandates (floors not ceilings) which guarantee that Michigan achieve 2% annual energy efficiency and 1.5% annual renewable energy gains. Further, we support the pursuit of every cost-effective, technologically feasible Kilowatt Hour (KWh) of energy efficiency available.

1. Energy efficiency is Michigan's cleanest, cheapest and most quickly deployed source of new energy available to Michiganders. Study after study at the state, federal, and international level confirm this. The Committee will note that the Michigan Public Service Commission (MPSC) reports that the cost of energy efficiency is "lower than the cost of all new fossil fuel generation plants regardless of technology type." One of the world's most prestigious, private consulting firms, McKinsey and Company, agrees. McKinsey found that the U.S. economy has the potential to reduce annual non-transportation energy consumption 23 percent by 2020, saving \$1.2 trillion at the cost of \$520 billion.

The U.S. Chamber of Commerce also agrees. In a letter to President Obama and Congress the Chamber wrote, "The best source of new energy is the energy we can save every day... We must expand the suite of voluntary programs, mandates, and fiscal incentives for greater benefits of energy efficiency."

PA 295's Energy Optimization law is working: The MPSC reports that "In program year 2013 EO programs across the state accounted for electric savings totaling over 1.3 MWh (megawatt hours) and natural gas savings totaling over 4.41 million Mcf (thousand cubic feet)." More, "Aggregate Michigan EO program expenditures of \$253 million by all natural gas and electric utilities in 2013, are expected to result in lifecycle savings to customers of approximately \$948 million on a NPV basis."

Improvements targeted at lower-income households have the added advantage of saving taxpayer and ratepayer dollars by decreasing low-income heating assistance payments. Energy efficiency frees up cash in tight monthly budgets and makes for more stable families and communities by returning dollars spent on energy to our wallets and the local economy. It increases housing values and decreases the cost of renting or owning a home.

2. Monetize Externalities to Improve Price Signals

Michigan's Renewable Energy Standard (RES) mandated in PA 295 has been a tremendous economic development story for Michigan. The hundreds of millions invested, new jobs, and new capacity brought online since 2008 is worth celebrating. The law is working and should be expanded.

However, with plenty of others telling the economic development success story, and the incredible drop in renewable energy prices, I will address another reason why Michigan should extend and expand our renewable energy standard in PA 295: Michigan still does not account for significant costs ("externalities") imposed on Michiganders from the production and combustion of fossil fuels.

Renewable energy is now cost competitive with fossil fuels. However, until the significant external costs



of fossil fuel combustion are monetized and brought into the market, renewable energy will be artificially under demanded and under supplied. This is another important reason for government to mandate a minimum 1.5% annual increase in the production of renewable energy.

The public has long paid the cost of fossil fuel combustion pollutants such as mercury, sulfur dioxide, nitrogen dioxide and arsenic. These pollutants are linked to increased rates of heart disease, childhood asthma, lung disease, chronic bronchitis, restricted activity days and premature death. These serious and significant costs are not reflected in the markets or price of energy in Michigan.

Economists recognize these costs as "externalities." Shareholders, energy producers, and ratepayers are imposing these costs on Michiganders, and they are not compensating us. A more efficient market would account for and internalize these costs. A study by Environmental Health & Engineering, Inc. found that health-related damages associated with emissions from just the dirtiest nine coal-fired plants in Michigan to be \$1.5 billion annually. These costs must be accounted for in order for energy markets to function more efficiently – to find a more optimal price, and a more efficient equilibrium of energy supply and energy demand.

Is it impossible to estimate external costs? Precise measurement is difficult, but conservative measurements can be found with high confidence.

In fact, this is being done increasingly across the country, including at the local level in Michigan. In 2012, the City of Holland and the Holland Board of Public Works hired an economic consultant to do a full accounting of the costs and benefits associated with bringing more energy capacity into the city's municipal utility. Led by economists and city leaders, community stakeholders worked together in public meetings to identify all of the traditionally hidden costs and benefits. Air pollution, carbon emissions, mercury and even the value of community land were included in the cost-benefit analysis. Stakeholders studied seven different energy generation scenarios and issued a report detailing a robust accounting.

Cost-benefit analyses, including major externalities, can and should be utilized to bring external costs into markets. Since 1996, Minnesota's Public Utility Commission has included cost analyses for airborne emissions of sulfur dioxide, nitrogen oxides, particulate matter, carbon dioxide, carbon monoxide and lead in energy resource valuation. Appropriately, Minnesota began with conservative estimates of these costs (\$0 in the case of SO₂), with plans to re-examine the values again in 2015. The process in Minnesota has been very contentious, but it represents a statewide effort to take a cold-hard look at monetizing external costs.

Michigan imports coal, gas, and pollution and we export cash, health and economic opportunity. We can do better. Now is the time to improve Michigan's framework for a clean, affordable energy future by increasing the state's energy optimization mandated floor to 2% and to continue the state's successful Renewable energy standard at the 1.5% annually.

Sincerely,

A handwritten signature in black ink, appearing to read "Nicholas Occhipinti", is written over the signature line.

Nicholas Occhipinti
Policy and Community Activism Director